



TOPIC

Taxing Legal Marijuana

PROBLEM

Legalization of for-profit cannabis production and sale invariably causes a price collapse. The natural price of cannabis production in a mature, legal, for-profit market may be as low as a nickel per joint.

Legalization-driven price declines means that taxes assessed solely as a percentage of sale price lose value rapidly both as a revenue source and as a deterrent to low-price stimulated upticks in cannabis use.

SOLUTIONS



Weight-based taxes on marijuana that are indexed for inflation (e.g., \$2/gram) do not lose value over time. However, they do create an incentive to produce and sell more potent cannabis products, which probably carry more risk of harm to health.



To counter the incentive created by weight-based taxes to produce high-potency products, states can adopt the alcohol model. This caps the allowable potency of products and taxes high-potency products more than low-potency products.



High THC/low CBD cannabis strains are more harmful to health, according to some research. That finding supports consideration of higher taxes on cannabis products with an unfavorable THC/CBD ratio.

CONCLUSION

Sole reliance on marijuana taxes based on a percentage of price is likely to create a low-price market that stimulates heavy use and provides minimal tax revenue to states. Weight-based taxes indexed for inflation address this problem. However, weight-based taxes could drive marijuana product-potency higher unless coupled with a potency cap and/or potency-targeted taxes.



KEY POLICY EVIDENCE

Wholesale cannabis prices in Colorado have dropped 70% in 4 years, following legalization of for-profit cannabis production.

Higher THC content has been linked to adverse public health consequences. Chronic use of THC during adolescence leads to immediate and long-term impairments in object recognition and working memory, according to a 2017 study. It also increases anxiety and compulsive behaviors.

State wine taxes are much higher than beer taxes because such taxation increases along with alcohol content. This same idea could be applied to high-THC strains of cannabis.



Probably the best way to tax marijuana would be to index it by THC content. That does not prohibit high levels of marijuana potency but it does make the user, as the economists say, 'internalize the externalities,' which, in this case, include higher probable risks."

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